

# Audit Report



## RECORDING OBLIGATIONS IN OFFICIAL ACCOUNTING RECORDS

Report No. D-2000-030

November 4, 1999

Office of the Inspector General  
Department of Defense

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### **Acronyms**

DFAS	Defense Finance and Accounting Service
GAO	General Accounting Office
USD(C)	Under Secretary of Defense (Comptroller)



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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November 4, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Audit Report on Recording Obligations in Official Accounting Records  
(Report No. D-2000-030)

We are providing this audit report for review and comment. We conducted the audit in response to a request from Senator Charles E. Grassley. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from the Defense Finance and Accounting Service are responsive to the recommendations and further comments are not required. We request that the Under Secretary of Defense (Comptroller) provide additional comments on Recommendations A. and B.1., to include estimated dates for completing the ongoing policy reviews pertaining to those Recommendations, and the Assistant Secretary of the Navy (Financial Management and Comptroller) provide additional comments on Recommendation B.2. We request that management provide the comments by January 5, 2000.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird at (703) 604-9159 (DSN 664-9159) (rbird@dodig.osd.mil) or Mr. Carmelo G. Ventimiglia at (317) 510-3852 (DSN 699-3852) (cventimiglia@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. D-2000-030

(Project No. 9FI-5042)

November 4, 1999

### Recording Obligations in Official Accounting Records

#### Executive Summary

**Introduction.** The audit was performed in response to a request from Senator Charles E. Grassley, who requested that we review DoD policies governing the recording of obligations in official accounting records. Those policies and weaknesses in the Navy's fund control system were discussed in General Accounting Office Report No. GAO/AIMD-99-19, "Financial Management: Problems in Accounting for Navy Transactions Impair Funds Control and Financial Reporting," January 1999. The report indicates that Navy records, as of September 30, 1997, showed that obligations for 9 canceled and 20 expired appropriations may have exceeded available budget authority by about \$290 million if obligations had been recorded for in-transit disbursements and problem disbursements charged to those appropriation accounts.

**Objectives.** Our primary audit objective was to determine whether DoD policies for recording obligations in official accounting records were consistent with title 31, United States Code. We also evaluated the actions taken to match disbursements charged to canceled and expired Navy and Marine Corps appropriations to obligations.

**Results.** The DoD policies for recording obligations in official accounting records do not violate title 31, United States Code, but are not fully consistent with its intent. The DoD has some discretion in determining appropriate times for recording obligations to cover disbursements that have not yet been properly matched to corresponding obligations in official accounting records. However, DoD should record obligations as soon as possible to ensure compliance with title 31, United States Code, and other fiscal statutes. If DoD delays the recording of obligations, it will be unable to identify overobligations and overexpenditures, which could be violations of the Antideficiency Act. Deferring the recording of an obligation for the purpose of avoiding an overobligation of an appropriation would be improper and contrary to the Department's responsibilities to investigate and report violations of the Antideficiency Act (finding A).

Controls over preparing and processing adjustments for canceled accounts were not adequate to ensure that obligations and disbursements were recorded in official accounting reports. As a result, the Navy did not report potential overobligations for nine canceled accounts totaling \$145.4 million, and subsequent actions taken to correct the potential overobligations in the canceled accounts were not reflected in official accounting reports (finding B).

**Summary of Recommendations.** We recommend that the Under Secretary of Defense (Comptroller) (USD[C]) establish time frames for recording obligations for in-transit disbursements and problem disbursements that meet the intent of title 31, United States Code, and other fiscal statutes. We also recommend that the USD(C) enforce the provisions of the DoD Financial Management Regulation with respect to recording

obligations for in-transit disbursements and problem disbursements charged to canceled appropriations. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) initiate actions to review potential Antideficiency Act violations. We also recommend that the Navy prepare journal vouchers and Vouchers and Schedules of Withdrawals and Credits (Standard Forms 1081) for all supported adjustments to canceled accounts not previously prepared and, if potential overobligations exist, initiate investigations in accordance with the Antideficiency Act. We recommend that the Director, Defense Finance and Accounting Service Cleveland Center, record the journal vouchers and Standard Forms 1081 and develop written procedures to properly account for canceled appropriations.

**Management Comments.** The USD(C) stated that DoD is considering revised policies to require fund holders to obligate funds to cover in-transit disbursements earlier than is the current practice. The USD(C) also stated that DoD is reviewing other policies regarding obligating funds for in-transit disbursements and problem disbursements. The USD(C) reiterated to the DoD Components the requirement to record obligations for in-transit disbursements and problem disbursements charged to canceling and canceled appropriations. He stated that his office is also exploring what additional policies might be reasonably effective and achievable should additional policies be required to ensure better compliance. The USD(C) also stated that the audit report provided no specific suggestions on how to ensure compliance.

The Navy stated that it had completed preliminary investigations of the nine canceled accounts and none of the accounts was overobligated. The Navy agreed to complete all obligating adjustments and work with the Defense Finance and Accounting Service to develop written procedures to properly account for canceled appropriations. The Director for Accounting, Defense Finance and Accounting Service, agreed to develop procedures to ensure that corrections to canceled and closed accounts are properly processed and reported in accounting reports. The Defense Finance and Accounting Service Cleveland Center will also develop a plan to record all journal vouchers and Standard Forms 1081 for canceled accounts. A discussion of the management comments is in the Finding section of the report, and the complete text of the comments is in the Management Comments section.

**Audit Response.** The comments from the USD(C) and the Navy were not fully responsive. The USD(C) acknowledged the need to shorten the time frames for recording obligations and enforce policies for recording obligations to cover in-transit disbursements and problem disbursements charged to canceled appropriations. The USD(C) did not indicate, however, when the ongoing policy reviews discussed in his comments would be completed. Establishing a target date would enhance the credibility of the Department's commitment to improve discipline in financial accounting. We disagree with the inference that it is impossible to enforce current DoD policy that Military Departments and Defense agencies must establish obligations for overaged in-transit disbursements and problem disbursements, including those charged to canceling and canceled appropriations. We recommended in a prior report that the USD(C) should withhold funds if DoD Components did not establish obligations to cover overaged problem disbursements. However, the USD(C) did not want to take that action. Other actions the USD(C) may take are discussed in this report.

We disagree with the Navy position that sufficient amounts can be deobligated in two of the nine accounts to preclude the need for further review of potential violations of the Antideficiency Act. The Navy did not take into account the adjustments and corrections to the accounts since the accounts were scheduled to close in computing the amounts that could be deobligated. The Navy comments reiterated the actions

previously taken and did not provide any additional information regarding the status of the nine canceled accounts. The Navy should record valid obligation and disbursement adjustments and, if any violations of the Antideficiency Act have occurred, report those violations.

Comments from the Defense Finance and Accounting Service were responsive and no further reply is necessary. We request that the USD(C) and the Assistant Secretary of the Navy (Financial Management and Comptroller) reconsider their positions and provide comments in response to the final report by January 5, 1999.

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## Background

**Funds Control.** The Antideficiency Act is one of a number of statutes that Congress enacted to protect its prerogative over the public purse. The Antideficiency Act has been codified in a number of provisions of title 31, United States Code. Proper obligation and expenditure recording practices are essential to sound funds control and compliance with the Antideficiency Act. To maintain proper fiscal control and have reliable information on amounts available for obligation and expenditure, DoD needs to be able to match disbursements reported to the U.S. Treasury with obligations shown in DoD accounting records. Because the disbursing and accounting functions are performed by separate organizations that often are not linked in fully integrated systems and are not collocated, disbursement data must "transit" to the accountable stations. The Defense Finance and Accounting Service uses the term "in-transit disbursements" to describe the disbursements that have not arrived at accountable stations and the term "aged in-transit disbursements" to denote excessive delays. If attempts to match disbursement and obligation data fail, the term "problem disbursements" is used. Unmatched disbursements and negative unliquidated obligations are the two types of problem disbursements. The DoD has been working for several years to reduce aged in-transit disbursements and problem disbursements.

**Congressional Request.** In Report No. GAO/AIMD-99-19, "Financial Management: Problems in Accounting for Navy Transactions Impair Funds Control and Financial Reporting," January 1999, the General Accounting Office (GAO) concluded that DoD had not established adequate funds control as required by the Antideficiency Act. The report indicated that Navy records, as of September 30, 1997, showed that obligations for 9 canceled (7 Navy and 2 Marines Corps) and 20 expired (14 Navy and 6 Marines Corps) appropriations may have exceeded available budget authority by a total of \$290 million if obligations had been recorded for in-transit disbursements and problem disbursements charged to those appropriation accounts. Senator Charles E. Grassley was concerned that DoD policies for recording obligations to cover disbursements that have not yet been properly matched to corresponding obligations in official accounting records permitted the Navy to delay the following for about 5 years:

- the recording of obligations in excess of available budget authority,
- the initiation of required Antideficiency Act investigations, and
- any resulting reports of violations to Congress and the President.

Senator Grassley requested that the Inspector General, DoD, determine whether DoD policies were inconsistent with the law.

**DoD Guidance.** Policies for researching and correcting disbursements and collections that have not been properly matched to obligations in official accounting records are in DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 3, "Budget Execution—Availability and Use of Budgetary Resources," December 1996. Those policies were based on a series of guidance documents issued by the Under Secretary of Defense



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(Comptroller) (USD[C]). On June 30, 1995, the USD(C) directed the DoD Components to establish, record, and report an obligation in the official accounting reports for each disbursement made after March 31, 1994, that had not been matched to the proper obligation within 180 days of the date of the disbursement. Establishing obligations ensures that funds are set aside in the event that research shows the disbursements to be correct and the original obligations are either not recorded or inaccurately recorded in accounting records. In October 1996, the USD(C) revised his guidance and required fund holders to obligate funds only to cover overaged problem disbursements up to the amount of any unobligated balances remaining in the appropriation. In December 1996, the USD(C) discontinued the practice of reporting aged in-transit disbursements as problem disbursements and no longer required fund holders to promptly record obligations to cover in-transit disbursements. Although the guidance covered each DoD Component, the Navy was most affected because of the large dollar value of disbursements that had not been properly recorded in the Navy's official accounting records. As of March 31, 1999, the Defense Finance and Accounting Service reported that the Navy had a total net amount of about \$1.2 billion of unresolved in-transit disbursements and problem disbursements that had been charged to canceled accounts.

## Objectives

Our primary audit objective was to determine whether DoD policies for recording obligations in official accounting records were consistent with title 31, United States Code. We also evaluated the actions taken to match disbursements charged to 9 canceled and 20 expired Navy and Marine Corps appropriations to obligations. We reviewed management controls related to the audit objectives. See Appendix A for a complete discussion of the scope and methodology and a summary of prior coverage.

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## A. Recording Obligations to Cover In-Transit Disbursements and Problem Disbursements

Although DoD has some discretion in determining appropriate times for recording obligations to cover disbursements that have not yet been properly matched to corresponding obligations in official accounting records, DoD should record obligations as soon as possible to ensure compliance with title 31, United States Code, and other fiscal statutes. Policy in place at the time of this audit has the effect of countenancing delays that are excessive. If DoD delays the recording of obligations, it will be unable to identify overobligations and overexpenditures, which could be violations of the Antideficiency Act. Deferring the recording of an obligation for the purpose of avoiding an overobligation of an appropriation would not be appropriate and would be contrary to the Department's responsibilities to investigate and report violations of the Antideficiency Act.

### Guidance

**DoD Policy for Recording Obligations.** DoD Regulation 7000.14-R, volume 3, chapter 11, "Cash, Unmatched Disbursements, and Negative Unliquidated Obligations," incorporated the policies and procedures that the USD(C) issued from March 1994 through December 1996.

**October 1996 Guidance.** In October 1996, guidance related to problem disbursements changed. The revised guidance directed the following:

- obligations resulting from actions to resolve problem disbursements should be recorded in an appropriation only up to the amount of that appropriation's unobligated balance;
- if, during the 5-year expired phase,<sup>1</sup> obligational authority becomes available, obligations for problem disbursements should be recorded before recording any program obligational adjustments; and
- any remaining obligations should be recorded when the appropriation cancels - 5 years after the appropriation expires.

**December 1996 Guidance.** In response to a briefing from Navy financial managers, the USD(C) revised the policy again on December 16, 1996. The Navy requested that the requirement to establish obligations for in-transit disbursements be revised because the Navy's ability to resolve them was limited. Under the policy revision, fund holders were not required to establish obligations to resolve aged in-transit disbursements that could not be

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<sup>1</sup>At the end of the period of availability of a fixed-year appropriation, the appropriation expires and for the next 5 fiscal years is available only for recording, adjusting, and liquidating obligations properly chargeable to that appropriation.

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matched to existing obligations in a current or expired appropriation until June 30 of the fiscal year in which the cited appropriation account was scheduled to cancel. If recording the obligations would result in an account being overobligated, DoD Regulation 7000.14-R, volume 3, chapter 11, allowed fund holders until March 31 of the following year to resolve the negative balance. Otherwise, they must report a potential Antideficiency Act violation and initiate a preliminary review.

**Funds Control Requirements.** Section 1341, title 31, United States Code (31 U.S.C. 1341) prohibits an officer from making or authorizing an obligation or expenditure exceeding amounts available in an appropriation or fund. Violations must be reported to Congress in accordance with 31 U.S.C. 1351. The head of each executive agency is also required to prescribe a system of administrative controls to restrict obligations and expenditures to amounts available. DoD Regulation 7000.14-R, volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1995, implements procedures for administrative control of appropriations. To ensure sound funds control and compliance with the Antideficiency Act, an agency's funds control system must record obligation and expenditure transactions as they occur. An agency may not avoid the requirements of the Antideficiency Act by failing to record obligations and expenditures.

## **Consistency of DoD Policy With Law**

The DoD policy for recording obligations to cover disbursements that have not been properly matched to corresponding obligations in official accounting records does not violate title 31, United States Code. Title 31, United States Code, does not specifically address the issue of when to record obligations to cover in-transit disbursements and problem disbursements. Consequently, DoD has some discretion in determining appropriate times for the recording of obligations to cover disbursements that have not yet been properly matched to corresponding obligations in official accounting records. However, DoD should record obligations as soon as possible to ensure compliance with the intent of title 31, United States Code, and other fiscal statutes. Without prompt recording of obligations, to include those needed to cover aged in-transit disbursements and problem disbursements, DoD appropriation accounting is seriously flawed. If DoD delays the recording of obligations, it is unable to report overobligations when they occur as required by the Antideficiency Act. Deferring the recording of an obligation for the purpose of avoiding an overobligation of an appropriation would not be appropriate and would be contrary to the Department's responsibilities to investigate and report violations of the Antideficiency Act. Further, fund holders would not fully comply with existing DoD policies for recording obligations.

**In-Transit Disbursements.** The DoD policy, which permits in-transit disbursements to remain unobligated until just before the appropriation is scheduled to close, is not consistent with the statutory intent of prompt resolution and recording of obligations and the investigation and reporting of overobligations. In a February 26, 1996, memorandum, the USD(C) recognized that the prompt recording of obligations in official accounting records is essential and that delays in recording obligations cause the available funding balances to be overstated and reported obligations to be understated.

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Current DoD policy requires obligations to be recorded in official accounting records at the time that the legal obligations are incurred, or as close to the time of occurrence as possible. We recognize that some time is needed to resolve in-transit disbursements because the resolution of such disbursements may eliminate apparent overobligations of appropriations. However, some unresolved disbursements were charged to the nine Navy and Marine Corps accounts cited in Report No. GAO/AIMD-99-19 more than 5 years before the closing of the accounts. Delays in recording obligations increase the potential for a violation of the Antideficiency Act. DoD policy regarding the delay in recording obligations for in-transit disbursements could hinder the accurate reporting and investigation of potential violations of the Antideficiency Act.

**Problem Disbursements.** The DoD policy for recording obligations to cover overaged problem disbursements also was not appropriate to ensure accurate reporting and investigation of potential Antideficiency Act violations. Fund holders were required to record obligations to cover overaged problem disbursements only up to the amounts of each appropriation's unobligated balance. Obligations that exceeded the appropriation's unobligated balance did not have to be funded until 3 months before the appropriation closed. Navy records indicated that, as of December 1998, some accounts would have had negative unobligated account balances since September 1996 if obligations were established to cover all unresolved problem disbursements. The failure to record in a timely manner an obligation that results in an overobligation may make it impossible to determine whether other obligational adjustments would have resulted in one or more Antideficiency Act violations, or to determine the individuals responsible for such violations as required by the Antideficiency Act and Office of Management and Budget Circular No. A-34, "Instructions for Budget Execution," November 7, 1997.

As discussed in Inspector General, DoD, Audit Report No. 99-135, "Trends and Progress in Reducing Problem Disbursements and In-Transit Disbursements," April 16, 1999, fund holders only partially complied with the requirement to establish obligations for overaged problem disbursements. As of March 31, 1999, Defense Finance and Accounting Service reported that only \$2.1 billion of the \$3.7 billion in overaged problem disbursements had been covered by obligations or had correcting adjustments that were pending. We recommended in Report No. 99-135 that the USD(C) require the Assistant Secretary (Financial Management and Comptroller) of each Military Department and the Comptroller of each Defense agency with overaged problem disbursements and aged in-transit disbursements to coordinate with the Defense Finance and Accounting Service and develop a detailed plan to overcome obstacles that prevent fund holders from establishing administrative obligations. In the reply to the final report, the USD(C) stated that DoD was analyzing the reasons for the noncompliance with the requirement to obligate for overaged and closed-year problem disbursements.

## **Status of Canceled and Expired Accounts**

**Canceled Accounts.** As of March 31, 1999, the official accounting reports for the nine canceled accounts continued to be inaccurate and failed to indicate the potential overobligation of budget authority. In addition, the Navy did not investigate potential violations of the Antideficiency Act or comply with the

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reporting requirements in 31 U.S.C. 1351. Because the Navy was unable to match all disbursements charged to the nine accounts to corresponding detail obligations, obligations to cover all remaining in-transit disbursements and problem disbursements were to be recorded in official accounting reports. Title 31, United States Code, clearly indicates that agencies must investigate and report the circumstances in which overobligations result in Antideficiency Act violations. A detailed discussion of the condition of the accounting records for the nine canceled appropriation accounts is in finding B.

**Expired Accounts.** Only 2 of the 20 expired appropriation accounts cited in Report No. GAO/AIMD-99-19 would potentially still be overobligated as of March 31, 1999. The FY 1995 Procurement of Ammunition, Navy and Marine Corps appropriation (account number 1508) would be overobligated by \$709,231.85 if obligations were recorded for all overaged problem disbursements and aged in-transit disbursements. That account had an unobligated balance of \$333,268 as of March 31, 1999. However, only about \$0.3 million of the \$1.3 million of the problem disbursements were covered by obligations, leaving a balance to be obligated of about \$1 million. If obligations were recorded for all overaged problem disbursements and aged in-transit disbursements, the no-year Shipbuilding and Conversion, Navy appropriation (account number 1611) would be overobligated by \$77,659.23.

The remaining 18 expired accounts were not in an overobligated status as of March 31, 1999, even if obligations were recorded for all overaged problem disbursements and aged in-transit disbursements. Generally, the dollar amounts of the problem disbursements decreased since September 30, 1997. As a result of ordinary business activity, such as deobligating amounts that were no longer valid, the amounts of the appropriations' remaining unobligated budget authority were sufficient as of March 31, 1999, to cover the problem disbursements that were not otherwise covered by obligations or did not have corrective actions pending. The Navy had been tracking the status of appropriations in which overaged problem disbursements exceeded available unobligated balances and emphasizing to fund holders the importance of resolving the problem disbursements since September 1996. Appendix B identifies the 20 expired appropriations that were cited in Report No. GAO/AIMD-99-19 and the unobligated balance, as of March 31, 1999, if obligations were recorded for all overaged problem disbursements and aged in-transit disbursements.

**Other Navy Accounts.** The records of the Defense Finance and Accounting Service Cleveland Center showed that as of March 31, 1999, an additional 4 appropriation accounts (not part of the 20 accounts) did not have a sufficient amount of unobligated budget authority to cover problem disbursements and aged in-transit disbursements that were not otherwise covered by obligations or did not have corrective actions pending. Table 1 identifies the four appropriations with insufficient unobligated balances to cover problem disbursements and in-transit disbursements.

Table 1. Appropriations With Insufficient Unobligated Balances to Cover Problem Disbursements and In-Transit Disbursements as of March 31, 1999			
Appropriation Account Name	Account Number	Fiscal Year	Potential Overobligation (in thousands)
Coastal Defense Augmentation	0380	X <sup>2</sup>	\$ 188
International Military Training and Education	1081	1994	10
Research, Development, Test, and Evaluation, Navy	1319	1997	14,982
Operation and Maintenance, Navy	1804	1995	278

In accordance with DoD policy, the four accounts would not be reported as potential Antideficiency Act violations until 6 months after the accounts close. The earliest that any of the four accounts would close would be September 30, 1999. The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) placed a moratorium on establishing any program obligational adjustments in the appropriations until obligations to cover the remaining amounts of overaged problem disbursements have been recorded. The failure to record in a timely manner an obligation that results in an overobligation may make it impossible to determine whether other obligational adjustments would have resulted in one or more Antideficiency Act violations, or to determine the individuals responsible for such violations as required by Office of Management and Budget Circular No. A-34.

## Conclusion

The DoD policy for recording obligations to cover unresolved in-transit disbursements and problem disbursements is not appropriate to ensure accurate accounting and identification of potential Antideficiency Act violations. The USD(C) would be in the best position to determine the acceptable time frames for recording obligations in a timely manner for in-transit disbursements and problem disbursements. The USD(C) should establish time frames for recording obligations that meet the intent of title 31, United States Code, and other fiscal statutes.

<sup>2</sup>The "X" denotes a no-year appropriation for which funds are available until spent without regard to fiscal year.

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## **Recommendation, Management Comments, and Audit Response**

**A.** We recommend that the Under Secretary of Defense (Comptroller) establish time frames for recording obligations for all in-transit disbursements and problem disbursements to ensure that DoD records obligations in a timely manner and complies with the requirements of the Antideficiency Act for investigating and reporting overobligations.

**Under Secretary of Defense (Comptroller) Comments.** The Under Secretary of Defense (Comptroller) concurred, acknowledging the need to strengthen existing policies for recording obligations for in-transit disbursements and problem disbursements. He stated that DoD is considering revised policies that would require fund holders to obligate funds to cover certain in-transit disbursements earlier than it had been obligating them. The Under Secretary of Defense (Comptroller) requested comments on potential policy changes from the DoD Components. He stated that DoD is also reviewing other policies regarding obligating funds for in-transit disbursements, negative unliquidated obligations, and unmatched disbursements.

**Navy Comments.** Although not required to comment, the Office of Assistant Secretary of the Navy (Financial Management and Comptroller) stated that the policy recognizes the different processes characteristic of in-transit disbursements. The Navy is concerned that a change in the current policy could result in burdensome operational procedures.

**Audit Response.** The Under Secretary of Defense (Comptroller) comments were not fully responsive. Although he acknowledged the need to reduce the time frames for obligating funds for in-transit disbursements and problem disbursements, he did not provide details as to when the policy review would be completed or when he planned to take action based on the policy review.

Disbursements must be promptly matched to the correct obligations in the official accounting records. The Defense Finance and Accounting Service continued to make progress in reducing the time it takes to send disbursements to accountable stations and resolving aged in-transit disbursements. A change in policy, if enforced, would cause the Defense Finance and Accounting Service and fund holders to prioritize the research and correction of in-transit disbursements and problem disbursements and would help to ensure the investigation and reporting of potential Antideficiency Act violations. We request that the Under Secretary of Defense (Comptroller) provide us with the additional information.

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## **B. Accounting for Canceled Appropriation Accounts**

Controls over preparing and processing adjustments for canceled accounts were not established to ensure that obligations and disbursements were recorded in official accounting reports. Controls were not adequate because the Defense Finance and Accounting Service (DFAS) Cleveland Center and the Navy did not have written procedures to properly account for canceled accounts that had been reopened. Official accounting reports would have identified overobligations in nine canceled accounts if the journal vouchers that established the obligations needed to cover the unresolved problem disbursements and in-transit disbursements were posted to accounting records in accordance with DoD policy. As a result, the Navy did not report potential overobligations for nine canceled accounts totaling \$145.4 million, and actions taken later to correct the potential overobligations in the canceled accounts were not reflected in official accounting reports.

### **Recording Obligations for Problem Disbursements and In-Transit Disbursements**

**DoD Guidance.** The USD(C) guidance issued on June 30, 1995, directed that unobligated balances be reduced in appropriations that canceled on, or before, September 30, 1994, and directed those reductions to be recorded in the official DoD accounting records, for all disbursements that had not been matched to the proper obligations. The guidance also stated that disbursements must have obligations established, recorded, and reported in the official accounting reports if they were charged to an appropriation that was scheduled to close on September 30, 1995, (and on a continuing basis) irrespective of whether the disbursement was made before, on, or after March 31, 1994. If recording the obligations caused an account to have a negative balance and the account is not returned to a positive balance within 6 months of the scheduled date of cancellation of the appropriation, the DoD Component involved must report a potential violation of the Antideficiency Act and initiate an investigation in accordance with DoD Regulation 7000.14-R, volume 14.

**Canceled Accounts.** After an appropriation expires, it is closed and any remaining balance, whether obligated or unobligated, is canceled. The Department of the Treasury can reopen a closed account for processing corrections.<sup>3</sup> As of May 31, 1999, the Department of the Treasury had reopened 106 Navy and Marines Corps accounts.

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<sup>3</sup>Technically, the Department of the Treasury keeps its automated records on-line so that it may process disbursement corrections to canceled accounts as required.



## Reporting Potential Overobligations and Identifying Corrective Actions

**Reporting for Canceled Accounts.** Controls were not established to ensure that official accounting reports for reopened canceled accounts were complete and accurate. The DFAS Cleveland Center did not process two journal vouchers prepared by the Office of Financial Operations, Assistant Secretary of the Navy (Financial Management and Comptroller), on August 15, 1995, and September 30, 1996, to cover about \$589.1 million in unresolved problem disbursements and in-transit disbursements. In addition, the Office of Financial Operations did not prepare journal vouchers to obligate \$39.5 million of in-transit disbursements and unmatched interfund billings. Establishing obligations to cover the unresolved problem disbursements and in-transit disbursements would have caused official accounting reports to indicate that nine canceled accounts were overobligated by \$145.4 million. Table 2 identifies the dollar values of the obligations that were not recorded in official accounting reports for the nine canceled accounts.

Table 2. Accounting Adjustments Not Entered in Official Accounting Reports			
Account Number and Fiscal Year	Journal Vouchers Prepared, but not Processed		No Journal Voucher Prepared (in thousands)
	Problem Disbursements (in thousands)	In-Transit Disbursements (in thousands)	
1506 1987	\$ 51,512	\$ 0	\$ 105
1507 1987	41,749	0	10,768
1810 1987	101,399	0	20,035
1810 1989	256	(100)	0
0380 1985	5,630	0	0
1319 M <sup>4</sup>	387,029	0	462
1107 1991	528	1,104	(45)
1106 1990	0	0	5,998
1453 1991	0	0	2,157
<b>Total</b>	<b>\$588,103</b>	<b>\$1,004</b>	<b>\$39,480</b>

The Office of Financial Operations prepared five journal vouchers from August 15, 1995, through July 31, 1997, to establish obligations to cover about \$3 billion in unresolved problem disbursements and in-transit disbursements that had been charged to canceled accounts. The Office of Financial Operations forwarded the vouchers to DFAS Cleveland Center to be processed and reflected in official accounting reports. However, DFAS Cleveland Center did not enter two of the five journal vouchers. DFAS Cleveland Center personnel stated that when they received the two journal vouchers, the appropriations on

<sup>4</sup>An M account was a successor account into which unobligated balances were transferred, or merged, from an expired account at the end of the second full fiscal year following expiration. Under the National Defense Authorization Act of 1991, existing M accounts were phased out.

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the vouchers had not been reopened. However, they could not explain why the journal vouchers were not processed later. The two journal vouchers included \$589.1 million in obligation adjustments to seven of the nine canceled accounts cited in Report No. GAO/AIMD-99-19. Even though DFAS Cleveland Center personnel were aware that the journal vouchers were not recorded in official accounting records as early as August 1997, the journal vouchers remained unrecorded as of June 30, 1999. The two other canceled accounts cited in Report No. GAO/AIMD-99-19 had \$8.2 million of unresolved in-transit disbursements and unmatched interfund billings that also should have been covered by obligations.

The DFAS Cleveland Center did not have controls in place to ensure that all journal vouchers needed to cover unresolved problem disbursements and in-transit disbursements charged to canceled accounts were processed and reflected in official accounting reports. Also, the Office of Financial Operations did not ensure that all documents needed to adjust obligations and disbursements related to problem disbursements and in-transit disbursements for canceled accounts were prepared. Controls are needed to maintain proper fiscal control and to have reliable information on amounts available for obligation and expenditure.

**Potential Antideficiency Act Violations.** Official accounting reports would have identified overobligations in nine canceled accounts if the journal vouchers that established the obligations needed to cover the unresolved problem disbursements and in-transit disbursements were posted to accounting records in accordance with DoD policy. The Navy did not report potential Antideficiency Act violations for the nine canceled accounts, and the USD(C) did not strictly enforced the provisions in DoD Regulation 7000.14-R, volume 3, with respect to the canceled accounts. Table 3 identifies the nine canceled appropriations and the amount of the potential overobligation as of March 31, 1999, that should have been reflected in official accounting reports.

Table 3. Canceled Appropriations With Potential Antideficiency Act Violations as of March 31, 1999			
Appropriation Account Name	Account Number	Fiscal Year	Potential Overobligation (in thousands)
Aircraft Procurement, Navy	1506	1987	\$ 10,479
Weapons Procurement, Navy	1507	1987	34,664
Other Procurement, Navy	1810	1987	57,836
Other Procurement, Navy	1810	1989	94
Coastal Defense Augmentation	0380	1985	5,611
Research, Development, Test, and Evaluation, Navy	1319	M	32,656
Operation and Maintenance, Marine Corps Reserve	1107	1991	16
Operation and Maintenance, Marines	1106	1990	4,037
Military Personnel, Navy	1453	1991	16
<b>Total</b>			<b>\$145,409</b>

**Corrective Actions.** Although the Office of Financial Operations initiated actions to correct the potential overobligations in the nine canceled accounts cited in the GAO Report No. GAO/AIMD-99-19, corrective actions were not effective. Actions were not taken to deobligate funds identified as no longer needed, and \$4.4 million in corrections to disbursements were not processed.

**Identifying Potential Amounts to be Deobligated.** The Office of Financial Operations personnel told us that they could identify funds in excess of the amounts of potential overobligations for six of the nine canceled accounts by deobligating funds that were no longer valid. In January 1999, the Navy's Fleet Materiel Support Office ran an automated program that identified unliquidated obligations that were deemed to be no longer valid. The automated program was run against accounting records that were in the Standard Accounting and Reporting System - Headquarters. The Standard Accounting and Reporting System - Headquarters retained the closing balances but did not include adjustments made to canceled accounts. Official accounting reports, Standard Forms 133, "Reports on Budget Execution," for the six accounts identified that several accounts had significant disbursement adjustments. The proposed deobligation amounts often exceeded the amounts that could be deobligated after the disbursement adjustments were considered. Table 4 shows a comparison between the adjusted unliquidated obligation balances and the proposed deobligation amounts for the six accounts as of March 31, 1999.

Table 4. Comparison of Adjusted Unliquidated Obligations and Proposed Deobligations (in thousands)					
Account Number and Fiscal Year	Unliquidated Obligation Closing Balance	Unliquidated Obligation Adjustments Since Appropriation Closed	Adjusted Unliquidated Obligation	Proposed Deobligations	
1506 1987	\$117,700	\$107,251	\$ 10,449	\$142,998	
1507 1987	38,253	8,770	29,483	39,380	
1810 1987	116,409	214	116,195	138,917	
1810 1989	1,621	0	1,621	1,948	
0380 1985	8,218	0	8,218	4,488	
1319 M	234,551	27,624	206,927	440,185	

Table 4 indicates that the proposed deobligation amounts exceeded the amounts that could be deobligated after the disbursement adjustments were considered for five of the six accounts. For example, the FY 1987 Aircraft Procurement, Navy appropriation (account number 1506) had an unliquidated obligation balance of \$117.7 million when the account closed on September 30, 1994. The account reopened in FY 1996, and the unliquidated obligation balance as of March 31, 1999, was \$10.4 million. The automated program identified about \$143 million for deobligation. As of June 30, 1999, journal vouchers had not been prepared to make any of the adjustments.

Two accounts would remain overobligated if funds were deobligated up to the amounts of the adjusted unliquidated obligation balance. For example, the potential overobligation for the FY 1987 Weapons Procurement, Navy appropriation (account number 1507) was \$34.7 million (see Table 3). The adjusted unliquidated obligation balance as of March 31, 1999, for the account was \$29.5 million. Consequently, the account would have still been overobligated by about \$5.2 million as of March 31, 1999. The other appropriation (account number 1506) would be overobligated by about \$50,000. Because the adjusted unliquidated obligation balances must also cover other valid disbursements, deobligating funds up to the adjusted unliquidated obligation balance may eventually result in potential overobligations.

**Correcting Disbursements.** The Office of Financial Operations did not process a Standard Form 1081, "Voucher and Schedule of Withdrawals and Credits," to correct one of the canceled appropriations after completing research. Office of Financial Operations personnel researched disbursements charged to the FY 1991 Military Personnel, Navy appropriation (account number 1453) and determined that disbursements that cited fund codes "PZ" and "VX" were incorrectly charged to the appropriation. The disbursements should have been charged to the FY 1991 Operation and Maintenance, Navy appropriation (account number 1804). As of June 30, 1999, the Office of Financial Operations had not processed a Standard Form 1081 to charge the \$1 million to the FY 1991 Operation and Maintenance, Navy appropriation. The action would have eliminated the potential overobligation in the account. The Office of Financial Operations also did not ensure that a correction related to the FY 1985 Coastal Defense Augmentation appropriation (account number 0380), valued at \$3.4 million, was processed.

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**Marine Corps Adjustments.** Marine Corps personnel identified errors in two of the nine canceled accounts that would eliminate the potential overobligations in the accounts. The Marine Corps identified \$0.4 million in obligations that were recorded in error for the FY 1991 Operation and Maintenance, Marine Corps Reserve appropriation (account number 1107). To correct this error, Marine Corps personnel needed to process a journal voucher reducing the amount of the obligations that had been recorded to cover problem disbursements and in-transit disbursements by \$0.4 million. As of March 31, 1999, official accounting reports did not indicate that a journal voucher was processed. Marine Corps personnel also identified a difference between an interdepartmental billing sent by the DFAS Cleveland Center to the Marine Corps and the Office of Financial Operations for the FY 1990 Operation and Maintenance, Marines appropriation (account number 1106). Although the actions would appear to correct the potential overobligations, the accounts remain unresolved.

## **Conclusion**

Controls were not established to ensure that official accounting reports for reopened canceled accounts were complete and accurate. Nine canceled Navy and Marine Corps appropriations would potentially be overobligated if obligations needed to cover unresolved in-transit disbursements and problem disbursements were reflected in official accounting reports. Establishing obligations to cover the unresolved problem disbursements and in-transit disbursements would have caused the nine canceled accounts to be overobligated by \$145.4 million. Although the Navy's Office of Financial Operations and the Marine Corps identified actions that could be taken that would correct the accounting for some disbursements and obligations and that would reduce or eliminate potential overobligations for seven of the nine accounts, they did not complete the actions. To maintain proper fiscal control and have reliable information on canceled accounts, obligations and disbursement adjustments need to be reflected in accounting records. If after recording obligations and disbursements adjustments other potential overobligations exist, the Navy should investigate potential Antideficiency Act violations; fix responsibility; and if any violations of the Antideficiency Act have occurred, comply with reporting requirements in section 1351, title 31, United States Code, and DoD Regulation 7000.14-R, volume 14.

## **Management Comments on the Finding and Audit Response**

**Navy Comments.** The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) stated that we overly simplified the issues concerning obligations for in-transit disbursements for closed accounts. The Navy stated that six of the nine accounts closed before June 30, 1995, when the Under Secretary of Defense (Comptroller) directed that unobligated balances be reduced in appropriations that canceled on, or before, September 30, 1994. The Navy stated that Navy personnel later took some actions to obligate funds to cover problem disbursements charged to those accounts. However, large numbers of potentially duplicate or invalid obligations were not reviewed

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because of the retroactive application of the policy. Further, the Navy stated that the audit report did not reflect that the Naval Air Systems Command corrected a negative unliquidated obligation valued at \$3.4 million.

**Under Secretary of Defense (Comptroller) Comments.** The Under Secretary of Defense (Comptroller) stated that we assumed that the Navy would not have taken corrective actions to eliminate potential overobligations when we said that recording obligations for unresolved in-transit disbursements and problem disbursements would have caused official accounting reports to reflect potential Antideficiency Act violations. He also stated that a canceled account may not be reopened once it has been closed.

**Audit Response.** We recognize that the guidance that the Under Secretary of Defense (Comptroller) issued on June 30, 1995, placed the Navy in a difficult position regarding the five accounts that closed on September 30, 1994, and the one account that closed before then. However, previous guidance the Under Secretary of Defense (Comptroller), issued on March 31, 1994, informed fund holders that obligations should have been established to cover disbursements not properly matched to corresponding obligations. We acknowledge that the Navy prepared a journal voucher in August 1995 for the problem disbursements that had been charged to the six accounts that closed before September 30, 1994. However, fund holders were responsible for reviewing accounting records before the dates the accounts were scheduled to cancel. Consequently, fund holders should have reviewed the validity of obligations and disbursements recorded in accounting records for the six accounts. And despite the action in August 1995 to prepare the journal voucher for problem disbursements charged to the accounts, journal vouchers have not yet been prepared for in-transit disbursements, and the Navy did not make a concerted effort to initiate other corrective actions until the General Accounting Office reported the potential overobligations in Report No. GAO/AIMD-99-19.

From the limited documentation that we received from the Office of Financial Operations, we agree that a transaction valued at \$3.4 million was posted to the FY 1985 Navy Coastal Defense Augmentation appropriation (account number 0380) in error. The documentation indicates that the error was identified by the Naval Air Systems Command in September 1994. If the error was corrected in the official accounting records before the account closed, then the account, as of March 31, 1999, was potentially overobligated by \$5.6 million. The official accounting reports did not show any corrections to this account since closing. If the error was corrected after September 1994, the account would be potentially overobligated by \$2.2 million.

In regard to whether a canceled account may be reopened once it has been closed, we have added a footnote in finding B to explain what is meant in more technically accurate terms.

## **Recommendations, Management Comments, and Audit Response**

**B.1.** We recommend that the Under Secretary of Defense (Comptroller) enforce the provisions of DoD Regulation 7000.14-R, the "DoD Financial

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**Management Regulation," volume 3, chapter 11, "Cash, Unmatched Disbursements, and Negative Unliquidated Obligations," with respect to recording obligations for in-transit disbursements and problem disbursements charged to canceled appropriations.**

**Under Secretary of Defense (Comptroller) Comments.** The Under Secretary of Defense (Comptroller) stated that he reiterated to the DoD Components the requirement to record obligations for in-transit disbursements and problem disbursements charged to canceling and canceled appropriations. The Under Secretary of Defense (Comptroller) also requested that each DoD Component provide a report demonstrating its compliance with existing policies. The Office of the Under Secretary of Defense (Comptroller) is exploring what additional policies might be reasonably effective and achievable should additional policies be required. He also stated that the audit report provided no specific suggestions on how to ensure better compliance.

**Audit Response.** The Under Secretary of Defense (Comptroller) comments were not fully responsive. Reiterating policies on July 27, 1999, is the first step to ensure compliance with the requirement to establish obligations for in-transit disbursements and problem disbursements charged to canceling and canceled appropriations and investigating potential overobligations in accordance with the Antideficiency Act. However, additional actions are required.

In Inspector General, DoD, Audit Report No. 99-135, we recommended withholding funds if the DoD Components did not establish obligations to cover overaged problem disbursements. However, the Under Secretary of Defense (Comptroller) nonconcurred, stating that withholding funds when DoD Components fail to record obligations to cover overaged problem disbursements was not a feasible solution because that action, by itself, did not ensure that funds were obligated. We maintain that withholding funds is a viable option. The Under Secretary of Defense (Comptroller) also has ample authority to take other budgetary measures or to place restrictions on funding allocations to the Military Departments and Defense agencies that would force compliance. We request that the Under Secretary of Defense (Comptroller) reconsider his position and provide comments on the final report.

**B.2. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):**

**a. Initiate actions to review the potential Antideficiency Act violations within 10 days in accordance with DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 14, chapter 3.C., "Preliminary Reviews Initiated as a Result of External Reports." If any violation of the Antideficiency Act has occurred, comply with reporting requirements in section 1351, title 31, United States Code, and DoD Regulation 7000.14-R, volume 14.**

**b. Prepare journal vouchers and Vouchers and Schedules of Withdrawals and Credits for all supported adjustments to canceled accounts that have not yet been prepared.**

**c. If after recording obligations and disbursements adjustments other potential overobligations exist, investigate potential Antideficiency Act**

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**violations; fix responsibility; and if any violations of the Antideficiency Act have occurred, comply with reporting requirements in section 1351, title 31, United States Code, and DoD Regulation 7000.14-R, volume 14.**

**Navy Comments.** The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) concurred, stating that the Navy completed its preliminary investigation of the nine canceled accounts. The Navy stated that after all the identified adjustments and corrections are reflected in journal vouchers, none of the nine accounts will be overobligated and none will have violated the Antideficiency Act. The Navy stated that it would prepare journal vouchers reflecting all known adjustments and corrections by November 19, 1999.

**Audit Response.** We consider the Navy comments to be partially responsive. The Navy reiterated the actions previously taken and did not provide any additional information in its comments regarding the status of the nine canceled accounts. We continue to maintain that the Navy efforts to identify potentially duplicate and invalid amounts to be deobligated to cover potential overobligations did not take into account the adjustments and corrections to the accounts since the accounts were scheduled to close. Two of the nine canceled accounts would continue to remain overobligated if funds were deobligated up to the amounts of the adjusted unliquidated obligation balance. We request that the Navy reconsider its position on whether the canceled accounts had potential Antideficiency Act violations and investigations should be initiated.

**B.3. We recommend that the Director, Defense Finance and Accounting Service Cleveland Center, in conjunction with the Assistant Secretary of the Navy (Financial Management and Comptroller), develop written procedures to account for canceled accounts that are reopened to ensure adjustments are recorded in official accounting reports.**

**Defense Finance and Accounting Service Comments.** The Director for Accounting, Defense Finance and Accounting Service, concurred and stated that the DFAS Cleveland Center will develop standard operating procedures to ensure that expenditure corrections to canceled and closed accounts are properly processed and reported on corresponding accounting reports. The DFAS Cleveland Center, in conjunction with the Assistant Secretary of the Navy (Financial Management and Comptroller), will develop a memorandum of understanding to identify responsibilities for maintaining accounting records for canceled and closed accounts. The memorandum of understanding will also formalize procedures for identifying responsibilities and time frames for processing administrative obligation corrections for undistributed expenditures pertaining to accounts that have not been canceled or closed. The estimated completion date for corrective actions is March 31, 2000.

**Navy Comments.** The Navy concurred and agreed that additional efforts were needed to better track and record accounting adjustments and transactions after an account closes. The Navy agreed to work with DFAS to develop written procedures.



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**B.4. We recommend that the Director, Defense Finance and Accounting Service Cleveland Center, record for all canceled accounts the journal vouchers and the Vouchers and Schedules of Withdrawals and Credits prepared by the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller).**

**Defense Finance and Accounting Service Comments.** The Director for Accounting, Defense Finance and Accounting Service, concurred and stated that the DFAS Cleveland Center will develop a plan in coordination with the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) to ensure that the center receives and inputs all journal vouchers and Vouchers and Schedules of Withdrawals and Credits. The estimated completion date for corrective actions was September 30, 1999.

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## Appendix A. Audit Process

### Scope

**Work Performed.** We reviewed Navy, Marine Corps, and DFAS Cleveland Center records related to the 9 canceled and 20 expired Navy and Marine Corps appropriations referenced in GAO Report No. GAO/AIMD 99-19, "Financial Management: Problems in Accounting for Navy Transactions Impair Fund Control and Financial Reporting," January 1999. We reviewed official accounting reports, Reports on Budget Execution, which identified the status of the 29 appropriations. We reviewed records and reports as of September 30, 1997, September 30, 1998, and March 31, 1999. We reviewed similar records and reports for other Navy appropriations as of March 31, 1999.

**DoD-Wide Corporate-Level Government Performance and Results Act Goals.** In response to the Government Performance and Results Act, the Department of Defense has established 2 DoD-wide goals and 7 subordinate performance goals. This report pertains to achievement of the following goals.

**DoD-Wide Goal:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **Performance Goal:** Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. (DoD-2.3)

**DoD Functional Area Reform Goals.** Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- **Financial Management Objective:** Eliminate problem disbursements. **Goal:** Improve timeliness and accuracy of obligations. (FM-3.3)
- **Financial Management Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. (FM-5.3)

**General Accounting Office High-Risk Area.** GAO has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

### Methodology

To determine whether DoD policies for recording obligations in official accounting records were consistent with title 31, United States Code, we reviewed title 31, United States Code; USD(C) policies and procedures for

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researching and correcting in-transit disbursements and problem disbursements issued between March 1994 and December 1996; and fund control guidance issued by the Office of Management and Budget and DoD. We also received assistance from personnel in the Office of the Deputy General Counsel (Inspector General). To better understand the issues in GAO Report No. GAO/AIMD 99-19 and the concerns raised by Senator Grassley, we discussed information with GAO personnel. To evaluate the actions taken to match disbursements charged to certain expired and canceled Navy and Marine Corps appropriations to obligations, we obtained and reviewed available records. To determine the basis for the information in the records and to understand the actions taken to resolve in-transit disbursements and problem disbursements, we met with Navy, Marine Corps, and DFAS personnel.

**Computer-Processed Data.** We used computer-processed data in this audit; however, we did not confirm the reliability of the data. The summarized information in the Standard Forms 133 and in DFAS and Navy records were based on data from numerous finance and accounting systems. We did not test the reliability of the data. Inaccurate data would impact the status of the appropriation accounts.

**Audit Type, Dates, and Standards.** We performed this financial-related audit from March through June 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

## Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the management controls.

**Scope of the Review of the Management Control Program.** While we reviewed management controls related to the audit objectives, we did not assess management's self-evaluation of the management control program. We limited our review of the management control program because the request from Senator Grassley primarily involved a legal determination as to whether DoD policies for recording obligations in official accounting records were consistent with title 31, United States Code, and specific sections of current fiscal statutes.

**Adequacy of Management Controls.** We identified material management control weaknesses as defined by DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996. Controls over recording and reporting obligations for in-transit disbursements and problem disbursements were not adequate to ensure the accuracy of official accounting records. Recommendations A, B.1., B.2., and B.3., if implemented, will improve controls over recording and reporting obligations for in-transit disbursements and problem disbursements. A copy of the report will be

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provided to the senior official in charge of management controls in the Office of the USD(C), DFAS, and the Office of the Secretary of the Navy (Financial Management and Comptroller).

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

## **Summary of Prior Coverage**

The GAO and the Inspector General, DoD, have conducted three reviews related to recording obligations in official accounting records. The following reports address issues that are discussed in this report.

### **General Accounting Office**

GAO Report No. AIMD-99-19 (OSD Case No. 1642), "Financial Management: Problems in Accounting for Navy Transactions Impair Funds Control and Financial Reporting," January 1999.

### **Inspector General, DoD**

Inspector General, DoD, Report No. 99-135, "Trends and Progress in Reducing Problem Disbursements and In-Transit Disbursements," April 16, 1999.

Inspector General, DoD, Report No. 96-145, "Obligation Management of Navy Appropriations," June 6, 1996.

## Appendix B. Status of 20 Expired Appropriations as of March 31, 1999

Appropriation Account Name	Account Number	Fiscal Year	Adjusted Unobligated Balance (in thousands)
Reserve Personnel, Navy	1405	1997	\$8,710
Operation Maintenance, Marine Corps Reserve	1107	1993	0*
Operation Maintenance, Marine Corps Reserve	1107	1996	1,081
Procurement of Ammunition, Navy and Marine Corps	1508	1995	(709)
Shipbuilding and Conversion, Navy	1611	X	(78)
Shipbuilding and Conversion, Navy	1611	1995	14
Other Procurement, Navy	1810	1994	4,743
Research, Development, Test and Evaluation, Navy	1319	1995	5,284
Reserve Personnel, Marine Corps	1108	1995	351
Operation and Maintenance, Navy	1804	1994	132,181
Operation and Maintenance, Navy	1804	1995	68,254
Operation and Maintenance, Navy	1804	1996	21,958
Operation and Maintenance, Marine Corps	1106	1997	16,869
Operation and Maintenance, Marine Corps Reserve	1107	1994	2,178
Aircraft Procurement, Navy	1506	1995	565
Shipbuilding and Conversion, Navy	1611	1986	29,669
Other Procurement, Navy	1810	1993	24,716
Procurement, Marine Corps	1109	1992	45,795
Research, Development, Test, and Evaluation, Navy	1319	1996	200
Military Construction, Naval Reserve	1235	1995	367

\*The account closed on September 30, 1998, with a balance of about \$4.4 million.

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director for Accounting Policy  
Director, Defense Logistics Studies Information Exchange

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Cleveland Center  
Director, Defense Logistics Agency  
Director, National Security Agency  
Inspector General, National Security Agency  
Inspector General, Defense Intelligence Agency

### **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget  
General Accounting Office  
National Security and International Affairs Division  
Technical Information Center

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International  
Relations, Committee on Government Reform

Honorable Charles E. Grassley, U.S. Senate

## Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

SEP 14 1999

MEMORANDUM FOR DEPUTY DIRECTOR, FINANCE AND ACCOUNTING  
DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Audit Report, "Recording Obligations in Official Accounting Records"  
(Project No. 9FI-5042)

This memorandum replies to your request for comments on the subject draft audit report.

We agree that the DoD policies for recording obligations in official accounting records do not violate title 31, United States Code concerning the recording of obligations. We also agree that good management practices dictate that disbursements should be matched with corresponding obligations as soon as practicable. Currently, the Department attempts to match disbursements with applicable obligations in as timely a manner as present-day processes and automated systems allow.

The Department previously has acknowledged that, as a result of outdated finance and accounting systems and antiquated business practices, it has some difficulty matching certain disbursements with their applicable obligations in as timely a manner as desired. As a result, at any given time, a percentage of the Department's disbursements temporarily may not yet be matched to their corresponding obligation by the Department's current processes and automated systems. When that scenario occurs, manual intervention often is required to research and resolve the condition. Despite these current difficulties, the vast majority of the dollar value of disbursements are prevalidated, i.e., matched with a corresponding obligation, prior to payment. Once implemented, our long-term systems solutions, which the Department aggressively is pursuing, will virtually, if not entirely, ensure that all future disbursements are matched to corresponding obligations contemporaneously.

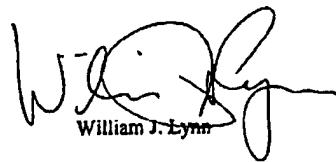
Despite the significant progress made by the Department, the Department acknowledges that more must be done if problem disbursements and in-transit disbursements are to be reduced in the interim period while system changes are being implemented. As the Office of the Inspector General is aware, this office is considering, and has asked for comments on, potential policy changes that are intended, and anticipated, to improve the timeliness of eliminating in-transit disbursements for which an obligation has not yet been recorded. Additionally, this office also is examining other policies in our attempts to identify other potential improvements that might be implemented.

This office's comments on recommendations A and B.1 are attached. Also attached are other specific technical comments regarding the draft report.



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The OUSD(C) appreciates the opportunity to comment on the draft report. My point of contact on this matter is Ms. Sally Matiella. She may be reached by e-mail: [matiells@osd.pentagon.mil](mailto:matiells@osd.pentagon.mil) or by telephone at (703) 697-8281.

  
William J. Lynn

Attachments

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
COMMENTS ON OFFICE OF THE INSPECTOR GENERAL, DOD  
DRAFT AUDIT REPORT TITLED "RECORDING OBLIGATIONS IN OFFICIAL  
ACCOUNTING RECORDS" (PROJECT NO. 9FI-5042)**

**Recommendation A:** We recommend that the Under Secretary of Defense (Comptroller) establish time frames for recording obligations for all in-transit disbursements and problem disbursements to ensure that the Department records obligations in a timely manner and complies with the requirements of the Antideficiency Act for investigating and reporting overobligations.

**Management Comment:** Obligations are required to be recorded within 10 days of being incurred. Time frames for recording obligations for in-transit disbursements and problem disbursements that are not yet matched to an obligation are addressed in Chapter 11, "Cash, Unmatched Disbursements, and Negative Unliquidated Obligations," Volume 3 of the Department of Defense Financial Management Regulation ("DoDFMR"). Prior to being published in the "DoDFMR" those policies were vetted through an extensive comment process and concurred with by DoD's Office of the Inspector General (OIG).

So as to strengthen existing in-transit disbursement policies contained in Chapter 11, Volume 3 of the "DoDFMR," the Department is considering revised policies that would require obligating funds for certain in-transit disbursements earlier than is the current practice. Additionally, other policies regarding obligating amounts for in-transit disbursements, NULOs and UMDs also currently are under review. This office is committed to ensuring that all such policies will continue to comply with the requirements of the Antideficiency Act.

**Recommendation B.1:** We recommend that the Under Secretary of Defense (Comptroller) enforce the provisions of DoD Regulations 7000.14-R, the "Financial Management Regulation," volume 3, chapter 11, "Cash, Unmatched Disbursements, and Negative Unliquidated Obligations," with respect to recording obligations for in-transit disbursements and problem disbursements charged to canceled appropriations.

**Management Comment:** In an effort to determine the extent to which the DoD Components have fully complied with existing guidance, the Under Secretary of Defense (Comptroller) reiterated, to the DoD Components, the requirement to record obligations for in-transit disbursements and problem disbursements charged to canceling and canceled appropriations and asked each Military Department and Defense Agency to provide a report demonstrating their compliance with existing policies. In the meantime, this office is exploring what additional policies might be reasonably effective and achievable should additional policies be required to better ensure fuller compliance. Although the OIG did not recommend any specific actions in its audit report, this office would welcome specific suggestions.

Attachment 1

**TECHNICAL COMMENTS REGARDING  
OFFICE OF THE INSPECTOR GENERAL, DOD  
DRAFT REPORT TITLED "RECORDING OBLIGATIONS IN OFFICIAL  
ACCOUNTING RECORDS" (PROJECT NO. 9FI-5042)**

- Page 9 of Finding B states that recording obligations for unresolved problem disbursements and in-transit disbursements would have caused official accounting reports to reflect potential Antideficiency Act violations. This statement assumes that (a) the Navy also would not have taken any other actions to review existing balances to make such other corrections as may have been appropriate and/or (b) that such other corrective actions would not have resulted in the elimination of potentially negative balances in the appropriations involved. While such assumptions may, or may not, be correct, the Department does know that the Navy did take corrective action in a number of similar situations and that such actions appear to have eliminated the potential negative balances. (While negative balances may be an indication of a potential violation, by itself, such balances are not a basis for concluding that a violation has been incurred.)

- Page 9 of Finding B further states that "The Department of the Treasury can reopen a closed account for processing corrections." That statement, as written, is inaccurate and inadvertently could lead the reader to the incorrect conclusion that a canceled account may be reopened once it has been closed. Neither current statute nor the Department of Treasury's or the Department of Defense's policies permit obligations to be incurred against, or disbursements to be made from, canceled accounts, or otherwise allow for canceled accounts to be reopened. However, when a disbursement is made prior to the cancellation of an account but not recorded properly, and the error is discovered subsequent to the cancellation of the account involved, the error should be corrected. Such corrections are necessary not only to properly reflect the impact on the canceled account involved but also to properly reflect the cash balance of the United States Treasury. The General Accounting Office agrees that such corrections can, and should, be made. As a result of the systems restrictions that limit the capability of the Treasury Department's automated systems to process such disbursement corrections, the Treasury Department often maintains balances for applicable canceled accounts in its automated system rather than purging their system of all information on canceled accounts. However, the Treasury Department does not "reopen" canceled accounts. A more accurate statement is that "The Treasury keeps its automated records online so that the Treasury may process disbursement corrections to canceled accounts as required." The use of the word "reopened" is inaccurate and misleading and should be avoided.

Added

Attachment 2

# Department of the Navy Comments



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON, D C 20350-1000

SEP 20 1999

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT  
OF DEFENSE

Subj: DODIG DRAFT AUDIT REPORT: RECORDING OBLIGATIONS IN  
OFFICIAL ACCOUNTING RECORDS (9FI-5042)

Ref: (a) DODIG DRAFT AUDIT REPORT: RECORDING OBLIGATIONS  
IN OFFICIAL ACCOUNTING RECORDS (9FI-5042) OF  
JULY 30, 1999

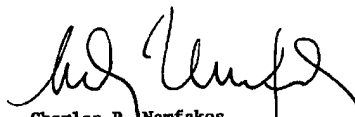
Encl: (1) DON comments to DODIG Draft Audit 9FI-5042

By reference (a), the Office of Inspector General, Department of Defense (DODIG) provided the results of their audit on the recording of obligations in the official accounting records for in-transit disbursements. The audit concludes that the current Under Secretary of Defense (Comptroller) (USD(C)) policy does not violate the statutes contained in Title 31 U.S.C.; however, the auditors believe that the current policy does not meet the intent of the law and recommend it be amended. The Department of the Navy's (DON) position is that the current policy relative to the obligation of in-transit disbursements recognizes the different processes characteristic of in-transit disbursement transactions. There is concern that a change in the current policy could result in burdensome operational procedures.

With respect to Finding B and recommendation B2 concerning potential violations of the Anti-deficiency Act, the DON is concerned that the subject report does not clearly present the situation and omits relevant information. As conveyed to the DODIG, the DON has completed a preliminary investigation of the identified nine closed accounts. Supporting evidence and documentation were provided to the DODIG that demonstrated none of the nine accounts was over obligated and none violated the statutes of the Anti-deficiency Act.

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Specific comments to Finding B and responses to recommendations B2 and B3 are provided as enclosure (1). The DON POC is Mr. Gilbert Gardner on 202-685-6727 or e-mail: [gardner.gilbert@fmo.navy.mil](mailto:gardner.gilbert@fmo.navy.mil).



Charles P. Nemfakos  
Senior Civilian Official

Recording Obligations in Official  
Accounting Records  
Department of the Navy Comments

Finding B. Accounting for Canceled Appropriation Accounts

The Draft Audit alleges that the Department of the Navy (DON) may have potential violations of the Anti-deficiency Act with respect to 9 closed accounts. These closed accounts are displayed below with the year they closed.

17 MM/MM 1319	closed Sep 1991, 1992 & 1993 (phased)
17 85/89 0380	closed Sep 1994
17 87/89 1506	closed Sep 1994
17 87/89 1507	closed Sep 1994
17 87/89 1810	closed Sep 1994
17 89/89 1810	closed Sep 1994
17 90/90 1106	closed Sep 1995
17 91/91 1107	closed Sep 1996
17 91/91 1453	closed Sep 1996

The Draft Audit presents a picture that overly simplifies the issues relative to obligations for in-transit disbursements in closed accounts. What is not discussed in the draft report is the fact that the 'M' and ending year '89' accounts closed before the USD(C) policy to obligate for problem disbursements was developed and promulgated in June 1995. The USD(C) policy required the DON to apply administrative obligations retroactively for unmatched disbursements and negative unliquidated obligations. The DON prepared a journal voucher in August 1995 for the 'M' and ending year '89' accounts. This voucher included the six accounts identified above. At the time there were no procedures for the reopening of closed accounts. Because these administrative obligations were required after the accounts had been closed, there were a large number of potentially duplicate or invalid obligations which could not be reviewed because of the retroactive application of the USD(C) policy. Subsequent reviews have revealed numerous invalid and duplicate obligations. The DON requested the Fleet Material Support Office, which controls the Standard Accounting and Reporting System (STARS), to review all outstanding,

unliquidated obligations at the document level for the subject six closed accounts to identify potentially duplicate and invalid obligations. The results of that review are shown below: (Dollars in Thousands)

Closed Account	Duplicate or Invalid Obligation	Original Unobligated Balance	Problem Disbursements
17 MM/MM 1319	\$440,185	+	\$312,839
17 85/89 0380	4,488	+	18
17 87/89 1506	142,998	+	31,722
17 87/89 1507	39,380	+	17,854
17 87/89 1810	138,917	+	63,598
17 89/89 1810	1,948	+	61

The amounts identified above, when combined with the original unobligated balances, are more than sufficient to cover the requirements to obligate for UMDs, NULOs and in-transit disbursements.

In the case of 17 85/89 0380 the problem disbursement figure reflected in the draft audit report was based on outdated information. It does not reflect a correction of a NULO for \$3,381,715.33 that was researched and corrected by the Naval Air Systems Command. When this disbursement correction is properly reflected in the report, the sum of the original unobligated balance and the duplicate obligations identified above is more than enough to cover the outstanding problem disbursement balance. A JV will be prepared by the OASN(FM&C) to deobligate the budget authority encumbered by the duplicate and invalid obligations. Once this is complete, all six 'M' and ending year '89' accounts will reflect a positive unobligated and unliquidated balance. None is over-obligated and none violated the statutes of the Anti-deficiency Act.

With respect to the three remaining closed accounts identified in the draft audit report, when journal vouchers reflecting the corrections, as corroborated by the auditors on pages 13 and 14, are processed these accounts will also reflect positive unobligated and unliquidated balances. None of these three accounts is over-obligated and none violates the statutes of the Anti-deficiency Act.

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Recommendations

B.2. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

a. Initiate actions to review the potential Anti-deficiency Act violations within 10 days in accordance with DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 14, chapter 3.C., "Preliminary Reviews Initiated as a Result of External Reports." If any violation of the Anti-deficiency Act has occurred, comply with reporting requirements in section 1351, title, 31 United States Code, and DoD Regulation 7000.14-R, volume 14.

Concur in Principle. As conveyed to the DODIG, the DON has completed its preliminary investigation of the identified nine closed accounts. The results of this investigation are presented in the Findings section above. The DON position is that once all the identified adjustments and corrections are reflected in a journal voucher none of the nine accounts will be over-obligated and none of the nine accounts addressed in the draft audit will have violated the Anti-deficiency Act. The DON will prepare journal vouchers reflecting all known adjustments and corrections and provide copies to the DODIG by November 19, 1999.

b. Prepare journal vouchers and Vouchers and Schedules of Withdrawals and Credits (SF 1081s) for all supported adjustments to canceled accounts that have not yet been prepared.

Concur. As previously conveyed to the auditors, the DON plans to complete all obligation adjustments both upward and downward during the year-end closing process. We estimate this will be completed by November 19, 1999.

c. If, after recording obligations and disbursements adjustments, other potential over-obligations exist, investigate potential Anti-deficiency Act violations; fix responsibility; and if any violations of the Anti-deficiency Act have occurred, comply with reporting



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requirements in section 1351, title 31, United States Code, and DoD Regulation 7000.14-R, volume 14.

Concur. However, the DON has not found any accounts to be over-obligated as a result of the preliminary investigation.

B.3. We recommend that the Director, Defense Finance and Accounting Service Cleveland Center, in conjunction with the Assistant Secretary of the Navy (Financial Management and Comptroller), develop written procedures to account for canceled accounts that are reopened to ensure adjustments are recorded in official accounting reports.

Concur. The DON agrees that additional efforts are needed to better track and record accounting adjustments and transactions after an account closes. The DON has prepared extensive draft guidance dealing with many of the issues associated with expired and closed accounts. This draft guidance was provided to the DODIG. The DON will work with DFAS to develop written procedures.

# Defense Finance and Accounting Service Comments



DFAS-HQ/ASF

## DEFENSE FINANCE AND ACCOUNTING SERVICE

1331 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

SEP 13 1999

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING  
DIRECTORATE, OFFICE OF THE INSPECTOR  
GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Recording Obligations in Official Accounting Records  
(Project No. 9FI-5042)

Our response to the subject audit is attached. The primary point of contact (POC)  
is Mr. Wayne Ebaugh, (703) 607-2857 or DSN 327-2857, and the secondary POC is  
Mr. Mike Bryant, (703) 607-1562 or DSN 327-1562.

  
Edward A. Harris  
Director for Accounting

Attachment:  
As stated

cc:  
DFAS-HQ/PO  
DFAS-CL/PI

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**DFAS Comments on Audit Report on Recording Obligations in  
Official Accounting Records (Project No. 9FI-5042)**

**Responses to Recommendations**

**Recommendation B.3.** We recommend that the Director, Defense Finance and Accounting Service Cleveland Center, in conjunction with the Assistant Secretary of the Navy (Financial Management and Comptroller), develop written procedures to account for canceled accounts that are reopened to ensure adjustments are recorded in official accounting reports.

**DFAS Management Comments:** Concur. The Defense Finance and Accounting Cleveland Center (DFAS-CL) will develop standard operating procedures (SOP) to ensure expenditure corrections to canceled and closed accounts are properly processed and reported on corresponding accounting reports. In addition, the DFAS-CL, in conjunction with the Assistant Secretary of the Navy (Financial Management and Comptroller), will formalize procedures identifying responsibilities and timeframes for processing administrative obligation corrections for undistributed expenditures pertaining to accounts that have not been canceled or closed. The memorandum of understanding will identify responsibilities for the maintenance of accounting records pertaining to canceled and closed accounts.

**Estimated Completion Date:** March 31, 2000.

**Recommendation B.4.** We recommend that the Director, Defense Finance and Accounting Service Cleveland Center, record for all canceled accounts the journal vouchers and the Vouchers and Schedules of Withdrawals and Credits prepared by the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller).

**DFAS Management Comments:** Concur. The DFAS-CL will develop a plan in coordination with the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) to ensure DFAS-CL receives and inputs all journal vouchers and Vouchers and Schedules of Withdrawals and Credits.

**Estimated Completion Date:** September 30, 1999.

## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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